

Message Text

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PAGE 01 OTTAWA 01962 232314Z

14-11

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SAM-01 FEA-01 AGR-05 CEA-01

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R 232130Z MAY 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6546

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

C O N F I D E N T I A L OTTAWA 1962

E.O. 11652: GDS

TAGS: ETRD, EEC, CA

SUBJ: CANADA-EC 'CONTRACTUAL LINK'

1. ECON COUNSELOR WAS INVITED TO MEET MAY 23 WITH SHANNON AND ROBINSON OF EXTAFF'S COMMERCIAL POLICY DIVISION FOR BRIEFING ON CURRENT DEVELOPMENTS REGARDING CANADA-EC "CONTRACTUAL LINK." THIS INVITATION CAME AFTER EMBASSY'S REPEATED REQUESTS OVER PAST SEVERAL WEEKS FOR UP-DATE ON STATE OF PLAY HAD BEEN MET WITH EVASIVE

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PAGE 02 OTTAWA 01962 232314Z

ANSWERS AND WAS PROBABLY STIMULATED AT LEAST IN PART BY ANNOUNCEMENT IN BRUSSELS MAY 21 THAT EUROPEAN

COMMISSION HAD RECOMMENDED TO COUNCIL THAT COMMUNITY "SHOULD OPEN NEGOTIATIONS WITH CANADA FOR THE CONCLUSION OF A FRAMEWORK AGREEMENT FOR ECONOMIC AND COMMERCIAL COOPERATION."

2. SHANNON HANDED OVER COPY EC PRESS RELEASE (TEXT SENT SEPTTEL). HE SAID COMMISSION'S DECISION TO FORWARD RECOMMENDATION TO COUNCIL FOLLOWED THREE ROUNDS OF DISCUSSION BETWEEN GOC AND COMMISSION OFFICIALS SINCE PM TRUDEAU'S LAST EUROPEAN VISIT, MOST RECENT ROUND HAVING TAKEN PLACE IN OTTAWA WITH EC REP WHO ACCOMPANIED COMMUNITY'S URANIUM MISSION TO CANADA. THESE DISCUSSIONS HAD EXPLORED WHAT ARRANGEMENTS COULD BE ENVISAGED THAT WOULD SERVE INTERESTS OF BOTH PARTIES. RESULTS FALL INTO THREE CATEGORIES: TRADE, ECONOMIC AND INDUSTRIAL COOPERATION, AND CONSULTATIONS.

3. TRADE ASPECT OF ARRANGEMENT WOULD BE SIMPLE EXCHANGE OF MFN COMMITMENTS. IN RESPONSE TO QUESTION WHY THIS WAS NECESSARY GIVEN GATT OBLIGATIONS, SHANNON SAID THERE WAS TO BE NOTHING PREFERENTIAL ABOUT AGREEMENT AND INCLUSION OF MFN COMMITMENT WOULD HELP TO ENSURE THAT THERE WAS NO MISUNDERSTANDING ON THIS POINT. FURTHERMORE, FROM GOC VIEWPOINT MFN COMMITMENT WAS IMPORTANT PRESENTATIONALLY BECAUSE IT IS "CONTRACTUAL" AND MAY WELL BE ONLY SUCH CONTRACTUAL ELEMENT IN AGREEMENT; OTHER ELEMENTS FALL INTO "FACILITATIVE" CATEGORY. ROBINSON ADDED THAT THIS WOULD ALSO BE FIRST TIME GOC HAD EXCHANGED MFN OBLIGATION WITH EC AS AN ENTITY AS DISTINCT FROM MEMBER STATES THAT ARE GATT CONTRACTING PARTIES.

4. SHANNON SAID MUCH TIME HAD BEEN DEVOTED TO DISCUSSION OF ECONOMIC COOPERATION. UNDERSTANDING IS THAT PARTIES TO AGREEMENT WOULD TAKE STEPS TO "FACILITATE LONG-TERM COOPERATION IN GENERAL AREA OF ECONOMIC AND INDUSTRIAL DEVELOPMENT." SUCH COOPERATION MIGHT INCLUDE, FOR EXAMPLE, JOINT VENTURES WHERE THESE WOULD BE BENEFICIAL AND COMPLEMENTARY. GOC WOULD HOPE
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PAGE 03 OTTAWA 01962 232314Z

THAT SUCH COOPERATION WOULD LEAD TO STRENGTHENING ECONOMY, CREATING EMPLOYMENT OPPORTUNITIES, AND PERHAPS SOME TRADE SPIN OFF, PARTICULARLY FOR PROCESSING AND MANUFACTURING SECTORS. IN RESPONSE TO REQUEST FOR MORE PRECISE INDICATION OF ROLE OF GOVERNMENTS IN THIS COOPERATION, SHANNON QUICKLY SAID THAT GOC RECOGNIZED THAT DECISIONS ON JOINT VENTURES, ETC. WERE ESSENTIALLY ONES TO BE MADE BY PRIVATE SECTOR. GOVERNMENTAL ROLE WOULD BE TO STIMULATE BUSINESS INTEREST, ORGANIZE TRADE MISSIONS SUCH AS EC FOREST PRODUCTS AND URANIUM MISSIONS,

MAKE INFORMATION AVAILABLE, CONSULT WITH PRIVATE INTERESTS TO IDENTIFY PROBLEMS AND HOW TO REMOVE THEM. GOC RECOGNIZES LIMITS OF WHAT GOVERNMENTS CAN ACCOMPLISH AND ALSO THAT WHATEVER IS DONE MUST TAKE ACCOUNT OF REGULATIONS ALREADY IN PLACE, E.G. FIRA, HOPE WILL BE THAT INDUSTRY WILL TAKE ADVANTAGE OF OPPORTUNITIES THAT MAY BE REVEALED.

5. WITH RESPECT TO CONSULTATIVE ARRANGEMENTS, SHANNON SAID GOC OBJECTIVE WILL BE TO GO BEYOND ALREADY ESTABLISHED SEMI-ANNUAL CONSULTATIONS, WHICH ARE BROAD AND GENERAL, AND FOCUS (A) ON IMPLEMENTATION OF CONCEPTS IN PARA 4 ABOVE RE ECONOMIC COOPERATION AND (B) CONSULTATIONS ON AD HOC PROBLEMS IN A WAY SIMILAR TO THAT PROVIDED BY GATT ARTICLE XXII.

6. ON TIMING OF NEXT STEPS, ROBINSON SAID EC SECRETARIAT HAS INDICATED THAT EC COUNCIL OF MINISTERS WILL PROBABLY TAKE A FIRST LOOK AT COMMISSION'S REPORT IN JUNE. COUNCIL WILL THEN PROBABLY REFER REPORT TO MEMBER STATES FOR DETAILED CONSIDERATION. FINAL DECISION WOULD BE POSSIBLE IN JULY BUT MORE PROBABLY WOULD NOT BE TAKEN UNTIL FALL. SHANNON AND ROBINSON ADMITTED THAT ALL THAT EXISTS NOW IS GENERAL UNDERSTANDING WITH COMMISSION AND IT NOT CERTAIN HOW MEMBER STATES WILL REACT.

7. SHANNON SAID GOC'S DESIRE FOR CONTRACTUAL LINK WITH EC WAS PART OF OVERALL EFFORT TO DIVERSIFY RELATIONSHIPS IN KEEPING WITH "THIRD OPTION." HE ASSUMED USG DID NOT OBJECT TO THIS. GOC WANTED
CONFIDENTIAL
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PAGE 04 OTTAWA 01962 232314Z

TO KEEP USG FULLY INFORMED OF DEVELOPMENTS IN ORDER TO ALLAY ANY CONCERNS.

8. ECON COUNSELOR SAID U.S. DID NOT OBJECT TO CANADA'S DIVERSIFYING ITS RELATIONSHIPS; AS AMBASSADOR HAD RECENTLY TOLD TORONTO AUDIENCE: "DO YOUR THING." WE WOULD BE CONCERNED, HOWEVER, AT ANY ARRANGEMENTS OF PREFERENTIAL CHARACTER OR WHICH WOULD DISCRIMINATE IN FAVOR OF OTHERS AT EXPENSE OF U.S. INTERESTS. HE POINTED, FOR EXAMPLE, AT RECENT SPEECH BY ITC MINISTER GILLESPIE WHICH SUGGESTED THAT CANADA-EC ARRANGEMENT MIGHT INCLUDE "CONDITIONS GIVING GREATER ASSURANCES OF SUPPLY AND ACCESS TO MARKETS." HOW SHOULD THIS BE INTERPRETED?

9. SHANNON SAID QUESTIONS OF SUPPLY ASSURANCES AND MARKET ACCESS WILL BE DEALT WITHIN GATT AND MTN CONTEXT. PRIVATE SECTOR MIGHT TAKE STEPS

TO IMPROVE SUPPLY POSITION (E.G. EUROPEAN INVESTMENT IN CANADIAN FOREST PRODUCTION) BUT, HE REITERATED, CANADA-EC AGREEMENT WILL BE NON-PREFERENTIAL IN THIS AND ALL OTHER ASPECTS. HE CONFIRMED ALSO THAT GOC WOULD CONTINUE TO ADMINISTER LAWS AND REGULATIONS (E.G. ON FOREIGN INVESTMENT REVIEW) IN NON-DISCRIMINATORY MANNER. HE ADDED THAT, WHILE HE COULD NOT SPEAK OFFICIALLY FOR EC, COMMISSION REPS HAD MADE CLEAR TO GOC THAT THEY WERE NOT INTERESTED IN ANY PREFERENTIAL ARRANGEMENTS WHICH THEY SAID WOULD "CREATE MORE PROBLEMS THAN THEY WOULD BE WORTH."

10. SHANNON SAID AMBASSADOR CADIEUX HAD BEEN INSTRUCTED TO BRIEF SENIOR OFFICIALS IN DEPARTMENT ON FOREGOING BUT IS HOLDING OFF UNTIL AFTER ASSISTANT SECRETARY HARTMAN'S RETURN FROM EUROPE. EXTAFF UNDERSTANDS CADIEUX HAS APPOINTMENT WITH HARTMAN SCHEDULED FOR JUNE 2.

11. COMMENT: EMBASSY BELIEVES, AS IT HAS REPORTED BEFORE, THAT GOC MOTIVATION IN SEEKING CONTRACTUAL LINK WITH EC IS PRIMARILY POLITICAL AND THAT REPEATED DECLARATIONS AT OFFICIALS LEVEL IN GOC THAT THEY WANT CONFIDENTIAL
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PAGE 05 OTTAWA 01962 232314Z

TO AVOID DISCRIMINATORY ARRANGEMENTS AND RECOGNIZE NEED TO KEEP TRADE NEGOTIATIONS FOCUSED IN MTN CAN BE TAKEN AT FACE VALUE. NEVERTHELESS, IT DOES NOT HURT TO CONTINUE TO EXPRESS OUR OWN CONCERNS WITH RESPECT TO POTENTIAL PROBLEMS AND EMBASSY RECOMMENDS WE DO SO AGAIN WITH CADIEUX. PORTER

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